

# **SUMMARIZATION OF OIL AND GAS LEASE RULES AND REGULATIONS**

## APPLICATION

Application for the issuance of an oil and gas lease must be executed under oath by applicant or his agent or attorney, or an officer or agent of a corporation, if the application is made by a corporation.

Application must be made on the form prescribed by the Board of Educational Lands and Funds, and must cover, unless otherwise directed by the Board, all land available for leasing within the section. Land must be described by legal subdivisions.

Application must specify the annual delay rental fixed by the Board which shall not be less than one dollar (\$1.00) per acre in Banner, Chase, Cheyenne, Deuel, Dundy, Frontier, Furnas, Garden, Hayes, Hitchcock, Kimball, Morrill, Red Willow, and Scotts Bluff counties and shall not be less than fifty cents (\$0.50) per acre in all other counties. Application must be accompanied by a certified remittance in the amount of the total annual delay rental for the first year plus a one dollar (\$1.00) fee for the issuance of the lease. If Applicant is not the successful bidder at the sale, all checks will be returned.

## PROVISIONS OF LEASE

Leases shall be for the primary term fixed by the Board which shall not be more than ten (10) years and as long thereafter as oil or gas is produced from the land covered thereby in paying quantities.

Lands shall be leased in as compact bodies as possible.

No lease shall embrace non-contiguous subdivisions of land unless otherwise directed by the Board with respect to subdivisions within an area comprising not more than one square mile.

No lease shall comprise more than one section of land.

There is no limit on acreage which may be held by one lessee.

## SALE PROCEDURE

Leases shall be sold at public auction by oral bidding; provided, an eligible bidder may submit an irrevocable written bonus bid, which bid must be accompanied by a certified check or cashier's check in an amount equivalent to the first year's annual delay rental, the one dollar (\$1.00) lease fee, and the bonus bid. Said bonus bid will thereby become the opening bid at the public auction.

Such leases are sold at the Office of the Board, after notice of the time and place of sale has been given by publication for two consecutive weeks in a newspaper of general circulation in the state, and in such additional publications as the Board may direct.

Leases are sold to the highest bonus bidder, subject to the approval of the Board. The Board may direct that bids be on the basis of cash bonus, cash rental, royalty, or any combination thereof.

The cost of advertising will be assumed by the high bidder.

The Board may include in a sale available tracts on its own motion, to which the above described procedures will apply.

Sale notices will be circulated to those who place their names on the Board's mailing list.

Bids will be increased in amounts conducive to a fair sale, suggested to be not less than ten cents (\$0.10) per acre.

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## BOND REQUIREMENTS

The Board shall require lessees, and assignees of leases, to furnish a bond in the amount of \$1,000.00 on its form, to indemnify the State against loss, damage or detriment by reason of the failure of the lessee to fully discharge the obligations contained in the lease, or assignment thereof.

A bond must be obtained after the auction, and filed with the Board prior to delivery of the lease to the lessee.

A blanket bond of \$5,000.00 may be given if more than one lease is held by the same person or corporation.

Bonds must be executed by a corporate surety authorized to do business in the State and countersigned by a resident agent.

## ROYALTIES AND ACCOUNTING

Leases shall reserve to the Lessor the royalty fixed by the Board which shall not be less than 12.5% of all oil, gas and other hydrocarbons and petroleum products produced and saved from the land and not used in connection with the development and operation of the leased premises, or the market value thereof at the leased premises, at the option of the Lessor.

The interest so reserved must be produced and paid free of cost (including, but not limited to, taxes) to the lessor and the lessee or reporting agent designated by him shall, on or before the last day of the month next following production, and on that date each month thereafter, file with the Board a monthly report on the form provided by it.

The monthly report must be accompanied by a full settlement for the royalty due, or a valid explanation for any necessary delay. After production has been achieved, should a lease fail to produce during a month, the reason for such non-production shall be indicated upon the monthly report in the same order as if there were production.

When more than one company is purchasing petroleum products from a lease, the reporting agent will indicate the names and total amount of sales to each purchaser.

The report will show, in the space provided, the location and number of wells covered by the report.

## ASSIGNMENTS

Assignments of leases are permitted by discretion of the Board upon receipt of a ten dollar (\$10.00) filing and recording fee, and a bond as hereinbefore set out.

Subject to the discretion of the Board, no assignment shall be approved which covers a tract of less than forty acres.

No assignment shall be approved which covers an undivided interest in the lease until a showing, satisfactory to the Board, has been made evidencing which of the parties, assignor or assignee, will pay the delay rentals. No assignment of an undivided interest shall be made covering less than forty (40) leasehold acres, subject to the discretion of the Board.

## UNITIZATION AGREEMENTS

Unitization agreements may be entered into by the Board. Such agreements shall provide for the allocation of production on a proportional acreage or other agreed equitable basis.

## EXTENSION OF LEASE BY PRODUCTION

Production in paying quantities upon any part of a lease shall continue the entire lease in force, subject to the implied covenants of development and fulfillment of offset obligations.